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E.O. 12958: N/A
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SUBJECT: CHILE: BIWEEKLY ECONOMIC HIGHLIGHTS

REFS: SANTIAGO 161 AND PREVIOUS

¶1. SUMMARY: This continues a series of updates on major developments in Chile's economy since the acceleration of global financial turmoil. President Bachelet said publicly that Chile's economic growth will slow in 2009, but remain positive. Chile's economy contracted by 1.4%. The unemployment rate rose to 8%. Inflation fell to 5.5%. The Ministry of Finance announced it will withdraw \$4 billion from a sovereign wealth fund to pay for the GOC stimulus package. Chile's forestry sector is well placed to survive the downturn in 2009. By March 6, copper prices made significant gains, the Peso rose against the Dollar, and the stock market closed lower. END SUMMARY.

Bachelet Sees Slowdown

¶2. On March 2, President Bachelet said publicly she expects Chile's economy to grow in 2009 but "at a slower pace." She stressed the first quarter would be the most difficult, but the GOC was maintaining its prediction that GDP would grow between 2-3% this year.

Economic Activity Falls

¶3. On February 27, INE reported industrial production fell 8.9% in January, compared with the same month the year before. This was the fourth straight drop in industrial production and greater than expected. Experts credited the decrease to a fall in internal demand and production in mining and construction.

¶4. On March 5, the Central Bank reported the Chilean economy contracted by 1.4% in February 2009, compared with the year before. The Central Bank's monthly economic activity indicator (Imacec) was at its lowest since January 1999 (during the Asian Financial Crisis). The contraction was expected and blamed on the drop in industrial production.

Unemployment Rate Rises

¶5. The INE reported February 27, that the unemployment rate climbed to 8% during November 2008 - January 2009 (from 7.5% during October - December 2008). Unemployment was higher than expected, and exceeded the rate of 7.2% for the same period last year. Unemployment surpassed 10% in 12 cities and reached 8.4% in

Santiago. INE also reported Chile's juvenile (ages 15 - 24) unemployment reached 19% in the last quarter of 2008, more than double the national rate. The Director of the National Youth Institute (Injuv) predicted juvenile unemployment will be over 20% in 2009.

Inflation Shows Another Small Drop

¶16. On March 4, the National Statistics Institute (INE) reported the Consumer Price Index decreased in February by 0.4% compared with January. This was fourth consecutive month of negative inflation and the biggest February contraction in 17 years. The CPI grew at an annualized rate of 5.5%. The fall in inflation was credited to falling prices in diverse goods and services, as well as food and beverages.

Finance Ministry Implements Stimulus Package

¶17. On February 23, the Ministry of Finance announced it will withdraw \$4 billion from one of Chile's sovereign wealth funds (the Economic and Social Stabilization Fund) to pay for the GOC's economic stimulus package. This would leave approximately \$16 billion in the fund. The Ministry will exchange \$3 billion for Chilean pesos to be used in counter-cyclical domestic spending and investments. The remaining \$1 billion will be kept in dollars and used to recapitalize Chile's state-owned copper company, CODELCO. The Central Bank will initiate a program of daily, dollar sales in blocks of \$50 million to acquire the pesos. The Ministry of Finance ruled out any long term effect on the exchange rate from the dollar sales.

¶18. On March 2, the GOC began one-time payments of 40,000 Chilean Pesos (about \$65) to approximately 1.7 million Chilean families. The payments are designed to counteract the effects of the financial crisis and are made for each child in every family making less than about \$700/month. The Ministry of Finance reassured the public that the stimulus package will not increase the projected government deficit (2.9% of GDP).

Forestry Industry Well-Placed For Crisis

¶19. A recent report from the risk rating agency Feller-Rate stated that Chile's forestry industry has the lowest costs and best potential for tree growth among competing countries. This will assure that the country's industry is well-placed for the effects of the global financial crisis in 2009. Wood products are one of Chile's leading exports. However, the Chilean Wood Corporation (Corma) predicts Chile's wood exports will fall approximately 17% in 2009 from the \$5.4 billion exported in 2008.

Copper Prices Climb Back Up

¶10. On the London Metals Exchange, copper closed up at approximately \$1.68/pound on March 6, rising almost 18% from its close on February 20. The price of copper is up almost 25% since the start of the year. Experts credit the rise to decreasing copper stocks and a weak dollar. CODELCO announced its excess surplus fell more than 40% in 2008. The state-owned copper company produced 1.47 billion tons in 2008 (a 7% decrease from 2007). Chile's copper exports fell for the seventh straight month in January.

Chilean Peso Rises/Falls Against Dollar

¶11. On March 6, the observed exchange rate closed at approximately 605 Chilean Pesos to 1 U.S. Dollar (an appreciation of about 2% from the close on February 20).

Stock Market Closes Lower

¶12. The IPSA closed at 2361.89 on March 6, down almost 9% on the close of February 20.
SIMONS